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## Romania

### HRI Food Service Sector

### Report

### 2004

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**Report Highlights:**

The value of the food service sector in Romania is estimated at \$2,350 mil. and a growth rate of 6-8% is anticipated for 2004. Restaurants, including hotels and restaurants in resorts, count for 70% of the food service sector value, while bars, coffee shops, and institutional catering sector cover 30%. As incomes increase, there will be better opportunities for U.S. exporters, especially for frozen fish and seafood, distilled spirits, dried fruits and nuts.

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## I. COUNTRY PROFILE

Romania is the second largest market in east-central Europe after Poland, with 21.7 million emerging consumers and a strategic position on the Black Sea. Romania has one of the fastest growing economies in Europe: GDP growth expanded by an estimated 4.9 percent in 2003 – the same as for 2002 – and is expected to continue to expand in 2004 at a slightly higher rate.

Tighter fiscal and monetary policies have pushed inflation down to 14.1 percent in 2003, from 17.8 percent a year earlier. Foreign direct investment inflows continue the ascendant trend, with an anticipated value of \$1.5 billion for 2004.

In 2002 more than half of the Romanian population was living in cities 55.9%, compared to 54.5% in 2001. In 2002, women workforce was 44.2% of total occupied population, in dropped from 48% as it was estimated in 2001. Unemployment rate declined from 11% in 2000 to about 8% in 2002.

According with the Romanian Customs Directorate, imports of agri-food products reached \$1.7 billion in 2003, 40% higher than in 2002. About 33% of total agri-food imports were sourced from the EU. The value of U.S. exports to Romania was \$93 million (5.5%), to some extent lower than in 2002. The major imported products were poultry meat, soybeans, cigarettes, raw tobacco, pork meat, fish, nuts.

Development of retail sector, increasing tourism trade, and growing number of high class restaurants and hotels indicate increased prospects for the U.S. food products exports.

## II. MARKET SUMMARY

In 2002, Romanian consumers spent about 49.9% of their total income on food products and beverages. The percentage is slightly reduced from 52.2% in 2001. The number of meals Romanian consumers have in restaurants has been on a positive trend and it is likely to continue in the future by about 3-5% yearly. The Food service sector has been under the influence of the following factors:

- food-industry growth projected at 12% for 2004
- increase in the number of foreign tourists by 24% and Romanian tourists by 15% in 2003
- increase in the demand for meals away from home. This is determined on one hand by a slight increase in the number of women in the workforce and on the other hand on the change in the food purchasing pattern, especially individuals within young families in the middle of their career.

### Advantages and Challenges facing U.S. Products in Romania

Advantages	Challenges
U.S. suppliers are able to provide reliably large amount of product and consistent quality to large chains	Long distance between United States and Romania makes U.S. products more expensive than from the neighboring countries due to freight costs
The weak dollar makes the U.S. products less expensive compared to other sources	Approaching EU integration will give more preference for food ingredients originating from the EU member states rather than other countries
High quality of U.S. products is well	Consumer price sensitivity influences the

known to consumers	food service sector
Good expectations in retail sector, infrastructure development and tourism	Consumer preference for fresh products is increasing

According to official statistical data for 2001, in Romania there were about 4,113 restaurants and about 6,100 coffee shops, bars, canteens and other establishments for food preparation. The number has not significantly changed over the last 3 years, but in terms of quality many of them have been upgraded. Given the fact there also small units which do not have their main activity as food service, the estimated number of total food outlets might be in the vicinity of 15,000. Overall sales in food service sector are estimated at \$2,350 mil. with a growth rate of 6-8% expected for 2004.

The major part of the report features the findings of a Survey conducted by a market research company on the restaurants located in Bucharest only for a group of products with high interest for the United States. This group consists of poultry meat, pork meat, beef (beef tripe included), ocean fish&seafood, alcoholic beverages. Some of these findings might be extended to the whole HRI sector.

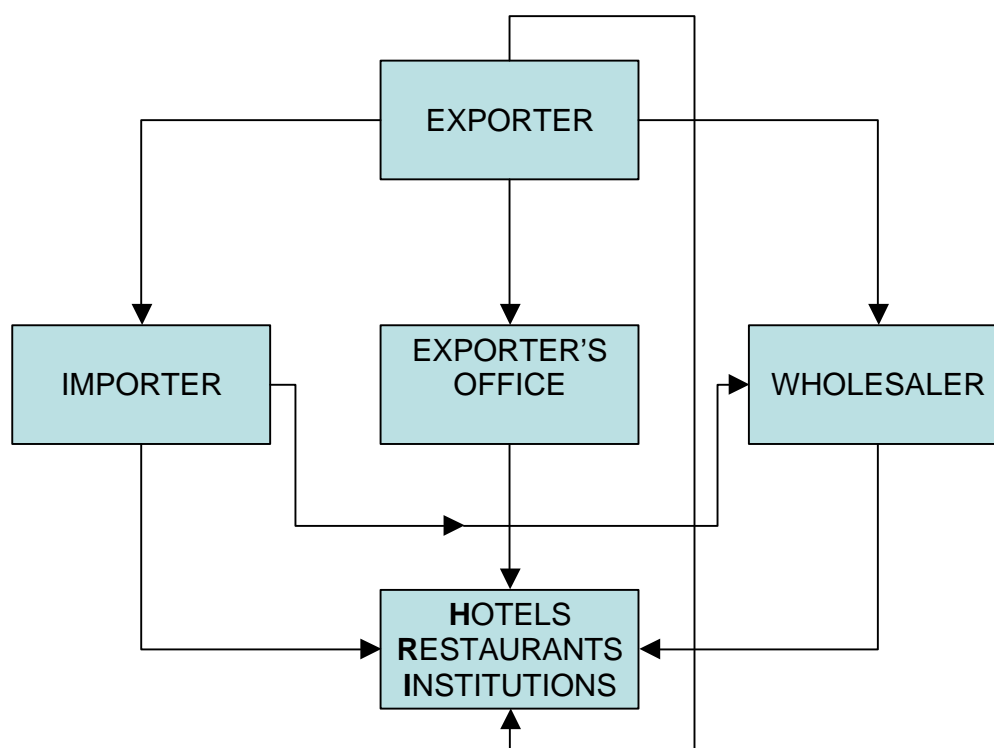
Bucharest has been chosen to be object of a detailed research because of the higher purchasing power of population, high concentration of restaurants and food outlets and its rename as a dynamic business center. In Bucharest, about 1,759 companies are involved in food service activity.

### III. ROAD MAP FOR MARKET ENTRY

#### Entry strategy

Restaurants source their food and beverages products from local suppliers, they do not import directly. The entry strategy varies according with the category of products and the facilities necessary to have in order to operate. Given the fact that most of the restaurants buy food from Wholesalers, one option for entering the market would be to work with importers or distributors, which are direct suppliers for these wholesalers. The wholesalers import directly only a few categories of products. Some of the importers and distributors deliver directly the goods to restaurants. Another type of strategy would be that the U.S. exporter would find a local exclusive representative importer/distributor, since this would be more familiar with existing legislation, trading practices and buyers. The U.S. exporters are recommended to ask for references on the importers prior to any agreement with them.

Chart 1 Exporter Marketing channels



### Market structure

There are only few companies with national distribution and warehouses covering the whole country. The range of products they work with is not very wide and they carry both domestic and import food products. Apart from the direct importers and distributors, there are few Hypermarkets and supermarkets that directly import food products.

Regarding distribution of food products, in an effort to reduce costs, there is a tendency among local distributors and food-processors to eliminate some of the intermediary companies and have direct contact with the exporter.

The retail sector remains on a strong positive trend and has attracted investment by multinational chains: sales at hyper and super markets more than doubled in the last two years. Total sales at hyper and supermarkets were valued at \$400 million in 2000 and reached over \$1 billion in 2002. According to the trade sources the sales are expected to reach \$1.5-2 billion in 2004. The total market retail value of all shops is currently estimated at \$8 billion in 2003. A growth rate of 2.5%-3% is estimated for 2004.

The development of retail sector, especially the hypermarket segment, is important since it is driving development for the food-service sector as well. The main hypermarkets also provide a fair range of prepared foods and salads.

Food courts developed in modern shopping centers and malls, is another food service type that have increasingly attracted consumers. Given the fact that the number of such establishments is expected to increase, the positive trend in food service will continue.

In the total sample used for the report, restaurants represent about 69%, while other types with quite significant shares are restaurant based in a hotel (11%), restaurant based in a casino or club (6%). Other types include pub, pizza&restaurant, restaurant & café & beer house, pub & restaurant, restaurant & bar & pub & café & terrace, snack bar.

### **Sub-sector profiles**

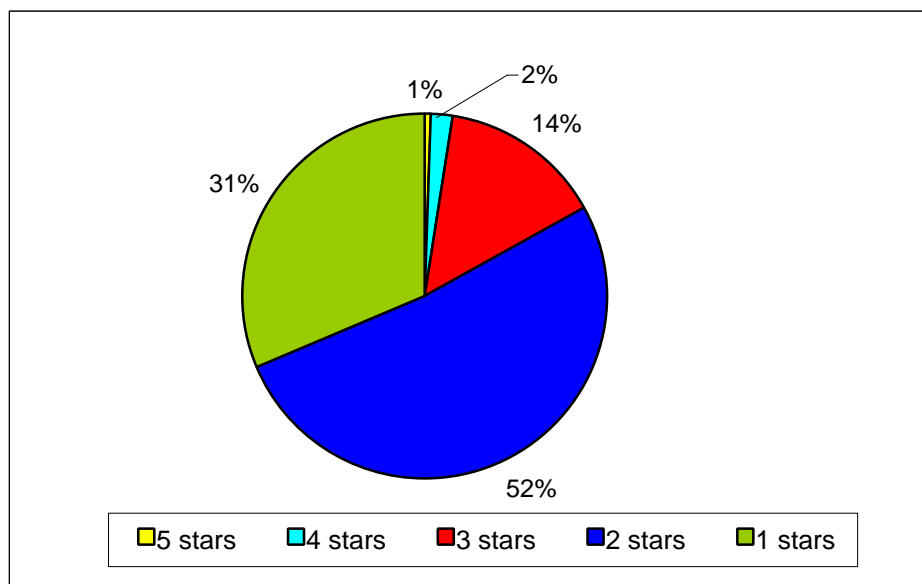
#### **Hotels and resorts**

The variety of landscape, especially the mountains and the Black Sea, the great number of historical monuments, the large number of health resorts, and opportunities for practicing winter sports have triggered the tourism sector development.

This fact can create opportunities for the U.S. food products. According to data provided by the Institute for Tourism Development, Romania was visited in 2003 by 1.5 mil. foreign tourists (with 24% more than in the previous year) and by 4.5 mil. Romanian tourists (with 15% more than in the previous year). While the number of foreign tourists in Romania is growing, this is still low compared to other countries in the region, such as Bulgaria (4 mil. tourists) and Poland (61 mil. tourists). Given the efforts of the Romanian Government in promoting the main tourist attractions, we could expect that the upward trend will continue in 2004.

The hotel market has been under a continuous change, due to privatizations and tourism development. According to analysts of the hotels industry, Romania has about 140,000 hotel rooms (all types) offering 277,00 beds. The rooms number increased by 4%-5% in 2003 and the trend will continue over the next 5 years, especially in the larger cities.

There were about 3,266 different tourist establishments in Romania in 2001. This figure does not include statistics for establishments with less than 5 beds. The range varies from camping sites and agro-tourist houses to luxury hotels. Out of this number, there were about 850 hotels. As the graph below depicts, the dominant position belonged to two-stars hotels. Driven by tourism development and investment, the portion of this hotel category has been decreasing in favor to three-stars hotels.

**Chart 2 Hotels structure by category, Romania**

Source: Statistical Yearbook, National Institute for Statistics, 2003

There are 40 hotels in Bucharest with a total capacity of 5,000 rooms. The hotel structure by category in Bucharest is consistent with the one previously described at the country level, with the leading position taken by the three-stars hotels.

**Table 1 Hotels structure by category, Bucharest**

Hotel category	No. of hotels	No. of rooms
5 Stars	5	1,326
4 stars	8	923
3 stars	20	1,700
2 stars	7	403

Source: Mediafax, 2004

The hotels that can offer services at international standards on the Romanian hotel market are: Marriott, Hilton, Best Western Hotel, Howard Johnson, Crown Plaza, IBIS, Intercontinental. These international chains are mostly located in Bucharest. Other international hotel chains (Accor and Hyatt) plan to invest in new hotel capacities in Bucharest, increasing the total room number with 12%.

## Restaurants

The survey revealed that most of the restaurants in Bucharest supply themselves from wholesalers, specialized markets (meat) or directly from producers. A smaller percentage use other sources, like open markets, hypermarkets. This characteristic can easily assumed for restaurants at country level. The following table describes for each category of products, the percentages of restaurants using the mentioned sources.

**Table 2 Main suppliers for restaurants, Bucharest**

Type	Pork meat	Beef (incl. tripe)	Poultry meat	Ocean fish&seafood	Strong alcoholic beverages
Wholesaler (Metro Cash&Carry)	58	44	48	37	41
Wholesaler (Selgros Cash&Carry)	36	29	26	26	26
Specialized market	8	7	-	-	-
Hypermarket	8	9	9	7	4
Domestic producers (meat-processors)	7	5	-	-	-
Importer/Distributor	6	5	13	7	-
Others	5	-	20	21	25

Source: Mednet Research 2003

About 115,000 persons have their meals daily at restaurants in Bucharest (5% of the total population in Bucharest). According to this survey the restaurants in Bucharest allocate monthly about \$300,000 for pork meat, \$220,000 for beef, \$690,000 for poultry meat, \$130,000 for ocean fish&seafood and about \$472,000 for strong alcoholic beverages.

Out of the total value of foodstuff bought, these are the monthly purchase of Romanian vs. U.S. origin products:

**Table 3 Monthly purchases in restaurants, Bucharest**

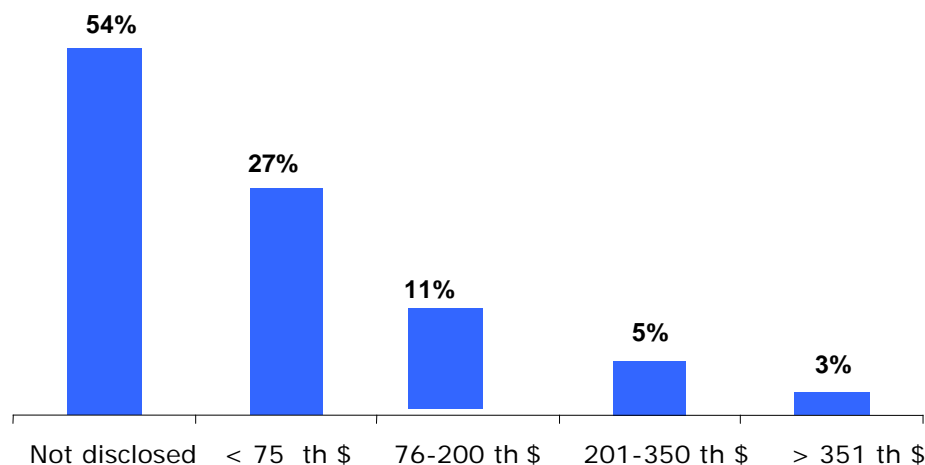
Product	Romanian product (\$/month)	U.S. origin product (\$/month)
Pork	300,000	-
Beef	188,000	5,500
Poultry	569,000	105,000
Ocean fish&seafood	-	2,700
Strong alcoholic beverages	142,000	62,000

Source: Mednet Research 2003

This information reveals the fact that in the food service sector there is a certain level of black market that should not be overlooked, both for meat and for alcoholic beverages. Mainly the small and medium-sized restaurant units buy meat in the absence of legal coverage and we do not expect these quantities to have been disclosed. Consequently, we consider that real total value of sales to restaurants for the investigated foodstuffs (except for ocean fish&seafood) is at least by 20% higher.

The distribution of classes of restaurants according to their turnover (54% did not disclose their sales) is presented below:



**Chart 3 Distribution of restaurants by turnover, Bucharest**

Source: Mednet Research 2003

In Romania there is a certain number of restaurants serving Romanian traditional foods, targeting foreign tourists, and also restaurants serving “ethnic” food, such as Italian, Greek, Hungarian, French etc.

The fast-food sub-sector is prospering at a significant rate due to the fact that a growing number of people intend to minimize the amount of time they spend preparing and eating meals. Fast-food outlets, unknown until 1990 are becoming a fact of life for Romanians. Most of the fast-foods serve various sandwiches, pizza, French fries, hamburgers, hot-dogs and a large variety of salads. The international Fast Food chains like McDonalds, Pizza Hut/KFC, Ruby Tuesday are present in Romania. The younger generation and middle-income families are the most common visitors of the food outlets.

Over the last three years a new type of fast food establishments entered the market, such as Gregory's, and Snack Attack. They mostly sell sandwiches and salads and they mainly target office workers. Their expansion and new players entry on this segment are in direct correlation with the growth of the office buildings in the medium to large cities. This sub-sector has a huge potential.

#### IV. COMPETITION

Below you will find a table with the major categories of food products and beverages offered by the food service sector in Romania.

Product Category / Total import 2003	Major Supply Sources in 2003	Strengths of Key Supply Countries/ Local Suppliers
Beef Meat  Import: 3,447 MT	Austria (63%) Hungary (28%)	Austria offers good quality meat at competitive prices.

Pork Meat  Import: 101,746 MT	Poland (33%) Germany (13) Hungary (11%)  US (2%)	Poland had a substantial support for pork exports. Germany and Hungary provide good quality products.
Poultry Meat  Import: 90,526 MT	The United States (49%) Brasilia (29%)	The United States has competitive prices compared to the local producers, especially for chicken leg quarters that are preferred by the Romanian consumers.
Frozen Fish & Seafood  Import: 52,516 MT	Norway (27%) Ireland (18%) The United States (13%)	The northern countries offer competitive prices and good quality. The United States is one of the main suppliers of Frozen mackerel.
Fresh Vegetables  Import: 166,128 MT	Turkey (41) Poland (21%) The Netherlands (9%)	Turkey is the leading supplier for fresh tomatoes, carrots, and eggplants at competitive prices. Local producers dominate the market.
Frozen Vegetables  Import: 4,843 MT	Belgium (56%) Hungary (20%) Poland (19%)  The United States (insignificant)	Belgium offers a large variety of frozen vegetables mixes at convenient prices and properly packaged.
Dried vegetables  Import: 31,450 MT	China (58%) Poland (14%) Egypt (9%)  The United States (under 0.5%)	China is the leading supplier for peas, beans, and lentils.
Peanuts/Nuts/ Almonds/Pistachio  Import 1,275 MT	Turkey (33%) Iran (30%)  The United States (6%)	Turkey is a major supplier for peanuts. Iran leads in pistachio. The United States count for more than 50% in almonds imports.
Mineral water  Import 16,000 hl	France (46%) Italy (30%)	There is a very high competition from the local suppliers.
Beer  Import 21,249 hl	Germany (22%) The Netherlands (21%) Czech Republic (19%)  The United States (insignificant)	Local suppliers benefited from strong foreign investments and advertisements.
Wines  Import 7,539 hl	France (38%) Italy (17%)  The United States (insignificant)	Local wine suppliers benefited from strong foreign investments and promotions. France has competitive prices and a good image among the Romanian consumers.
Spirits	Great Britain (44%) Italy (8%)	The Great Britain is leading in Scotch Whiskey. The United States is the

Import 35,364 hl	The United States (8%)	leading supplier in Bourbon Whiskey. Well known whiskey brands have been heavily advertised.
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Source: Romanian Customs Directorate, 2003

All establishments included in the survey have an utilization degree of the investigated category food products over 50% for each product. In Bucharest, restaurants that use products such as pork, beef or poultry meat, mostly source their products from domestic suppliers; the restaurants serving ocean fish&seafood procure this product only from import and so do most of the restaurants serving strong alcoholic beverages.

The findings of the survey conducted in HRI sector in Bucharest are described below for the investigated food products. The term "restaurants" will be the generic word used for all food service establishments included in the sample (hotel with restaurants, restaurant, bar, pub, canteen, fast-food etc.).

### **Pork meat**

Out of the total number of restaurants in Bucharest, about 90% use domestic pork meat and 6% use frozen pork meat from import. None of the investigated restaurants that sell pork products uses pork of U.S. origin. The countries of origin for pork meat are Poland, Hungary and Germany. When referring to the Romanian pork meat, the attribute mentioned by more than half of the restaurants (61%) was "fresh, not frozen". Some of the restaurants consider it as of good quality, cheap, tasty and easy to procure.

In the case of imported pork meat, 20% of the restaurants mentioned that this product is frozen (as a negative characteristic), while 10% believe it has a high price. Some of them consider it is of fine quality at a good price.

### **Beef (tripe included)**

The beef domestic producers are the main suppliers for 76% of the restaurants, while importers only count for 23%. Beef tripe from United States is used by 18% of the restaurants and 5% of them use only beef tripe imported from the United States. Other sources for beef are Hungary, Austria, France and Ireland.

Good quality at good price and good appearance were the positive features mentioned by most of the restaurants. Beef products are considered with an unsatisfactory taste by 10% of restaurants.

The only beef product supplied currently by the United States on the Romanian market is beef tripe. Therefore the advantages and disadvantages presented in this case for the U.S. only referred to beef tripe. Most of the restaurants (67%) consider that the product has a good aspect (clean), some of them (28%) consider it has a good quality and taste and the others that it has a good price, it is preferred by consumers and it is satiating. The high fat content would be the weakness.

### **Poultry meat**

Restaurants source poultry meat primarily from the domestic producers in the detriment of importers (97% compared to 14%). This is questionable, since there are companies carrying activities, both domestic production and import, for the same product. Both categories domestic and imports might be sold under the same Brand name (after packaging and

labeling accordingly). This may mislead the restaurants. In other words, given the high percentage of imports in total consumption, the percentage of imported poultry might be higher than as it was reported. The main foreign suppliers of poultry meat are United States, Brazil and Hungary. The restaurants supplied with poultry meat from foreign sources represent about 10% in the total number of restaurants in Bucharest and the same percentage use poultry meat originating from United States.

Freshness was the positive attribute mentioned by more than half of subjects for the domestic product (56%). However there are restaurants that consider that Romanian poultry meat has a high price compared to imports, especially those from United States. The most frequently used meat assortments are chicken legs, poultry liver and turkey meat. The advantages mentioned by most respondents supplied with poultry meat from import are acceptable price (60%), consistency (30%) and good price/quality ratio (20%).

### **Ocean fish & seafood**

Restaurants source ocean fish & seafood solely from imports. The main fish & seafood suppliers are Norway, Italy, Thailand, Spain, the United States. It is worth to mention that about 30% of the restaurants are not aware of the origin of the products they buy on the market.

The positive features prevail for this product, unlike the previous products coming from outside. The advantages mentioned are related to the good quality, consumers' preference, as well as to the special taste.

### **Strong alcoholic beverages**

Unlike the other type of products, the strong alcoholic beverages mainly come from imports; 82% of restaurants source strong alcoholic beverages from foreign countries, out of which 38% use products of American origin. The restaurants source strong alcoholic beverages mainly from Great Britain (74%), Italy (40%), E.U. (18%), and France (15%). Romanian strong alcoholic beverages are bought by 66% of the restaurants. They believe the Romanian origin beverages have quite a good price, are traditional and preferred by consumers, especially by foreign tourists. A significant percentage of the restaurants (39%) do not use Romanian products, so they are not aware of the characteristics of such types of products.

In the case of imported products, the positive features prevail. The good quality and fine taste are two of the characteristics of these products mentioned by more than half of restaurants (51%). A significant percentage of the restaurants (38%) use strong alcoholic beverages from United States and more than half find no shortcomings. The advantages mentioned by most respondents (47%) are related to the high quality of this type of products and consumer preferences (37%). However the products are expensive for most of the restaurants (66%).

### **Other food products supplied by the United States**

Besides the investigated categories of products, the survey identified about 13% of the restaurants supplied with other types of food products from the United States, such as sauces and dressings, soft drinks, frozen vegetables, beer and wines, spices.

As identified by the interviewed restaurants, there are some factors that would help the U.S. increase its market share. A stronger promotion for these food products, the existence of constant and reliable partners providing good quality products at reasonable prices,

enhanced knowledge about U.S. origin products, more flexible payment terms have been revealed. Nevertheless, the intention to use food products from the United States in the future was expressed by 63% of the restaurants.

## **V. BEST PRODUCT PROSPECTS**

The positive trend registered by the HRI sector is expected to continue in the future. The following is a description of best products prospects for U.S. exporters.

### **A. Products present in the market which have good sales potential**

Value of poultry meat imports has insignificantly increased last year from \$57 mil. in 2002 to \$58 mil. in 2003. Nevertheless, the U.S. value in total imports increased by more than 50% reaching \$26 million in 2003. Macroeconomic factors such as weak dollars versus Euro, competitive price for poultry and some veterinary restrictions imposed to some of the U.S. competitors create good perspectives for U.S. exporters. The customs duty is 45% while CEFTA (Central European Free Trade Agreement) member countries enjoy a preferential duty of 28%.

Total imports of distilled spirits increased in 2003 by 25%. The significant increase in Bourbon Whiskey import from the U.S. (92%) was largely due to the reduction in customs duties from 70% to 35%, starting with May 2003. In Jan. 2004, tariffs for all categories of distilled spirits were reduced from 90% to 60%. Therefore, an increase in imports is expected. Nevertheless, differences between the duties applied to U.S. products or other origin (60%) and alcoholic beverages from the European Union (30%) continue.

Frozen fish and seafood (import duty 20% and 25%), pork meat (import duty 20%), especially high quality, turkey meat (35% in 2004 reduced from 45%) have also a good sales potential for HRI sector.

### **B. Products not present in significant quantities but which have good sales potential**

The United States has long been a supplier of beef tripe (valued at approximately \$1.5 million annually) to Romania, but beef cuts and other beef offals have not been imported. An agreement for beef meat imports between the two veterinary authorities would offer new U.S. export opportunities for high quality beef, as well as trimmings for processing and variety meats, estimated at \$1-2 million. The duty level for beef meat is 20%.

Other products with good potential are grocery products such as sauces, mayonnaise, ketchup, soy products and frozen vegetables. Tree nuts and almonds are definitely a good opportunity for U.S. exporters especially for the sub-sector Pubs and Bars.

### **C. Products not present because they face significant barriers**

Mineral water, fresh fruits and vegetables, beer and dairy products are not recommended due to high competition either from domestic producers or from EU countries.

**VI. POST CONTACT**

If you have any questions regarding this report or need assistance exporting to Romania, please contact us at:

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